

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 7055

BILL NUMBER: HB 1295

DATE PREPARED: Jan 15, 2002

BILL AMENDED:

SUBJECT: Assessment of Patterns.

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FUNDS AFFECTED:

X

**GENERAL
DEDICATED
FEDERAL**

IMPACT: State & Local

Summary of Legislation: This bill provides that the assessed value of a pattern for property tax purposes is 1% of cost.

Effective Date: January 1, 2002 (retroactive).

Explanation of State Expenditures:

Explanation of State Revenues: The State levies a small tax rate for State fair and State forestry. A \$7 M to \$35.5 M AV reduction would reduce the property tax revenue for these two funds by about \$200 to \$1,200.

Explanation of Local Expenditures:

Explanation of Local Revenues: Patterns used for metal casting are considered to be special tooling. Under the former personal property assessment rules that were valid through the March 1, 2001, assessment date, special tooling was assessed at 30% of cost in its year of acquisition and 3% of cost in all other years. Under the new personal property assessment rules effective with the March 1, 2002, assessment date, special tooling will be assessed 42% of cost in the year of acquisition, 14% in the second year, and 2% in all other years. This bill would set the assessment percentage of patterns at 1% of cost for all years.

In general, a reduction in the amount of assessed value will cause a shift of part of the property tax burden from the taxpayers receiving the reduced valuation to all other taxpayers in the form of an increased tax rate. Data concerning the exact amount of property in the state that is considered to be a pattern and valued at 1% of cost under this proposal is not readily available. This analysis will estimate the impact of the bill as a range.

First, an estimate was made of the impact of valuing all of special tooling at 1% of cost. The Department of Local Government Finance reports that the total true tax value of special tooling was \$326.1 M for the 1999 Pay 2000 tax year. There is no data on the cost of the property, nor is there a breakdown available of the amount of special tooling that was assessed at 30% and the amount assessed at 3%. Making an assumption that special tooling is kept for ten years and making an additional assumption that investment in special tooling remains constant from year to year, it was estimated that the annual cost of new special tooling is about \$572 M statewide. The estimated \$572 M annual investment in special tooling kept for ten years would result in assessment of about \$412 M under the new personal property assessment rule. At 1% valuation, the same property would yield an assessment of about \$57 M. The reduction in the tax base is then estimated at \$355 M for all special tooling.

If all special tooling was made up of patterns, the tax shift would be estimated at \$6.7 M. However, it is estimated that between 2% and 10% of special tools are patterns. The AV reduction from the assessment of patterns at 1% of cost is then estimated at \$7 M to \$35.5 M. **The tax shift resulting from this loss of AV is estimated at \$130,000 to \$675,000 annually.**

Total local revenues, except for cumulative funds, would remain unchanged. The revenue for cumulative funds would be reduced by the product of the fund rate multiplied by the deduction amount applicable to that fund.

State Agencies Affected: Department of Local Government Finance (State Tax Board).

Local Agencies Affected: County and township assessors.

Information Sources: Department of Local Government Finance; Local Government Database.